

2008 Instructions for Form 990

(Core Form, Parts VIII-XI)

Part VIII Statement of Revenue

Column (A) – Total Revenue

All organizations must complete Column (A), *Total Revenue*, reporting their **gross receipts** for all sources of revenue. All organizations (except section 527 political organizations) must complete Columns (B) through (D). Refer to specific instructions below for completing each column.

TIP: If the organization enters an amount in column (A) for lines 2a through 2e or lines 11a through 11c, it must also enter a business code for each line from the *Codes for Unrelated Business Activity* in the 2008 Instructions for Form 990-T. If none of the listed codes accurately describe the activity, enter 900099. Use of these codes does not imply that the business activity is unrelated to the organization's exempt purpose.

Column (B) – Related or Exempt Function Revenue

In Column (B) report all revenue from activities substantially related to the organization's exempt purpose. Also report here any revenue that is excludable from gross income other than by section 512, 513, or 514, such as interest on state and local bonds that is excluded from tax by section 103.

Column (C) – Unrelated Business Revenue

In column (C), report any **unrelated business** revenue received by the organization during the **tax year** from an **unrelated trade or business**. See Pub. 598, *Tax on Unrelated Business Income of Exempt Organizations*, and Form 990-T, *Exempt Organization Business Income Tax Return*, for more information.

Column (D) – Unrelated Business Revenue Excluded From Tax (under sections 512, 513, or 514)

In column (D), report any revenue excludable from **unrelated business income** by Code sections 512, 513, or 514. Examples of such revenue include receipts from the sale of donated merchandise, interest (unless debt-financed), and receipts from **bingo** games.

Line 1. In General

Contributions, Gifts, Grants and Similar Amounts Received

On lines 1a through 1f report cash and non-cash amounts received as voluntary **contributions**, gifts, grants or other similar amounts from the general public, **governmental units**, foundations, and other exempt organizations. The general public includes individuals, corporations, trusts, estates, and other entities. Voluntary contributions are payments, or the part of any payment, for which the payer (donor) does not receive full retail value (fair market value) from the recipient (donee) organization. Contributions are reported on line 1 regardless of whether they are deductible by the contributor. The non-cash portion of contributions reported on lines 1a through 1f is also reported on line 1g.

Report gross amounts of contributions collected in the organization's name by fundraisers.

Report all expenses of raising contributions in Part IX, column (D), *Fundraising*. The organization must show on line 11e fees for **professional fundraising services** relating to the gross amounts of contributions collected in the organization's name by professional fundraisers.

Report the value of **non-cash contributions** at the time of the donation. For example, report the fair market value of a donated car at the time the car was received as a donation.

Reporting line 1 in accordance with **SFAS 116** is acceptable for Form 990 purposes, but not required by IRS. An organization that receives a grant to be paid in future years should, according to SFAS 116, report the grant's present value on line 1. Accruals of present value increments to the unpaid grant should be reported on line 1 in future years.

Contributions do not include:

- grants, fees or other support from **governmental units**, foundations or other exempt organizations that represent a payment for a service, facility, or product that primarily gives some economic or physical benefit to the payer.
- the portion of any fundraising solicitation representing payment for goods, services, or anything else at retail value.
- donations of services or of use of materials, equipment, or facilities.
- unreimbursed expenses of **officers, employees, or volunteers**. (See the explanations of charitable contributions and employee business expenses in Publication 526 and Publication 463, respectively.)
- payments received from employers for welfare benefits under plans described in sections 501(c)(9), (17), and (18). Report these amounts on line 2, program service revenue.

Line 1a. Federated Campaigns. Enter on Line 1a the total amount of **contributions** received indirectly from the public through solicitation campaigns conducted by federated fundraising agencies and similar fundraising organizations (such as from a United Way organization). Federated fundraising agencies normally conduct fundraising campaigns within a single metropolitan area or some part of a particular state, and allocate part of the net proceeds to each participating organization on the basis of the donors' individual designations and other factors.

TIP: Federated fundraising agencies must, like all other filers, identify the sources of contributions made to them on lines 1a through 1g.

Line 1b. Membership Dues. Report on line 1b membership dues and assessments that represent **contributions** from the public rather than payments for benefits received or payments from affiliated organizations.

Example. M is an organization whose primary purpose is to support the local symphony orchestra. Members have the privilege of purchasing subscriptions to the symphony's annual concert series before they go on sale to the general public, but must pay the same price as any other member of the public. They also are entitled to attend a number of rehearsals each season without charge. Under these circumstances, M's receipts from members are contributions reported on line 1b.

Membership dues that are not contributions because they compare reasonably with available benefits are reported on line 2, program service revenue.

Membership dues may consist of both contributions and payment for goods and services. In that case, the portion of the membership dues that is a payment for goods or services should be reported on line 2, program service revenue. The portion that exceeds the fair market value of the goods or services provided should be reported on line 1b.

See Pub 1771, Charitable Contributions – Substantiation and Disclosure Requirements.

Line 1c. Fundraising Events. Enter the total amount of **contributions** received from **fundraising events**, which includes, but is not limited to, **gaming** events, dinners, auctions, and other events conducted for the sole or primary purpose of raising funds for the organization's exempt activities.

Example. An organization holds a dinner, charging \$400 per person for the meal. The dinner has a retail value of \$160. A person who purchases a ticket is really purchasing the dinner for \$160 and making a contribution of \$240. The contribution of \$240, which is the difference between the buyer's payment and the retail value of the dinner, would be reported on line 1c and again on line 8a (within the parentheses). The revenue received (\$160 retail value of the dinner) would be reported in the right-hand column on line 8a.

If a contributor gives more than \$400, that person would be making a larger contribution, the difference between the dinner's retail value of \$160 and the amount actually given. Rev. Rul. 67-246, 1967-2 C.B. 104 explains this principle in detail. See also the instructions for lines 8a through 8c and Publication 526, Charitable Contributions.

Organizations that report more than \$15,000 total on lines 1c and 8a must also answer "Yes" to Part IV, line 18 and complete Schedule G, *Supplemental Information Regarding Fundraising Activities*, Part II.

Line 1d. Related Organizations. Report on line 1d amounts contributed to the organization by **related organizations**. Do not report amounts reportable on line 1a.

Line 1e. Government Grants. Enter the total amount of **contributions** in the form of grants or similar payments from local, state, or federal government sources, as well as foreign governments. Include grant amounts from **U.S. possessions**.

A grant or other payment from a **governmental unit** is reported here if its primary purpose is to enable the organization to provide a service to, or maintain a facility for, the direct benefit of the public rather than to serve the direct and immediate needs of the governmental unit. In other words, the payment is recorded on line 1e if the general public gets the primary and direct benefit from the payment and any benefit to the governmental unit is indirect and insubstantial as compared to the public benefit.

The following are examples of governmental grants and other payments that are treated as contributions and reported on line 1e:

- Payments by a governmental unit for the construction or maintenance of library or museum facilities open to the public.
- Payments by a governmental unit to nursing homes to provide health care to their residents.
- Payments by a governmental unit to child placement or child guidance organizations under government programs to better serve children in the community.

Line 1f. All Other Contributions, Gifts, and Similar Amounts. Enter all other **contributions**, gifts, and similar amounts the organization received from sources not reported separately on lines 1(a) through 1(e). This amount includes contributions from **donor advised funds**.

Line 1g. Non-cash Contributions. Enter the amount of **non-cash contributions** included on lines 1a through 1f. If this amount exceeds \$25,000 the organization must answer "Yes" to Part IV, line 29 and complete and attach Schedule M, Non-Cash Contributions.

Non-cash contributions are anything other than cash, checks, money orders, credit card charges, wire transfers, and other transfers and deposits to a cash account of the organization. Value non-cash donated items, like cars and **securities**, as of the time of their receipt, even if sold immediately after they were received.

Example. A charity receives a gift of stock from an unrelated donor. The stock is delivered to the charity's broker, who sells it on the same day and remits the sales proceeds, net of commissions, to the charity. The value of the stock at the time of the contribution must be reported on line 1f and also on line 1g. The sale of the stock, and the related sales expenses (including the amount reported on lines 1f and 1g), must be reported on lines 7a through 7d.

TIP: Museums and other organizations that elect not to capitalize their collections (in accordance with **SFAS 116**) should not report an amount on line 1g for **works of art** and other collection items donated to them.

For more information on **non-cash contributions**, see Instructions for Schedule M.

Line 1h. Total. Enter the total of lines 1a through 1f (but not line 1g).

TIP: The organization may also need to attach Schedule B, Schedule of Contributors. See the instructions for Schedule B for more information.

Line 2. Program Service Revenue. On lines 2a through 2e, enter the organization's five largest sources of program service revenue. Program services are primarily those that form the basis of an organization's exemption from tax. For a more detailed description of program service revenue, refer to the instructions for Part IX, column (B), Program service expenses.

On line 2f, enter the total received from all other sources of program service revenue not listed individually on lines 2a through 2e. On line 2g, enter the total of column (A), lines 2a through 2f.

Program service revenue. Program service revenue includes income earned by the organization for providing a government agency with a service, facility, or product that benefited that government agency directly rather than benefiting the public as a whole. Program service revenue also includes tuition received by a school, revenue from admissions to a concert or other performing arts event or to a museum; royalties received as author of an educational

publication distributed by a commercial publisher; interest income on loans a credit union makes to its members; payments received by a section 501(c)(9) organization from participants or employers of participants for health and welfare benefits coverage; insurance premiums received by a fraternal beneficiary society; and registration fees received in connection with a meeting or convention.

Program related investments. Program service revenue also includes income from program-related investments. These investments are made primarily to accomplish an exempt purpose of the investing organization rather than to produce income. Examples are scholarship loans and low interest loans to charitable organizations, indigents, or victims of a disaster.

Rental income from an exempt function is another example of program-related investment income. When an organization rents to an unaffiliated exempt organization at less than fair rental value for the purpose of aiding that tenant's exempt function, the filing organization should report such rental income as program service revenue on line 2. For purposes of this return, report all rental income from an affiliated organization on line 2.

Unrelated trade or business activities. Unrelated trade or business activities (not including any **fundraising events** or **fundraising activities**) that generate fees for services may also be program service activities. A social club, for example, should report as program service revenue the fees it charges both members and nonmembers for the use of its tennis courts and golf course.

Sales of inventory items by hospitals, colleges, and universities. Books and records maintained in accordance with generally accepted accounting principles for hospitals, colleges, and universities are more specialized than books and records maintained according to those accounting principles for other types or organizations that file Form 990. Accordingly, **hospitals**, colleges, and universities may report, as program service revenue on line 2, sales of inventory items otherwise reportable on line 10a. In that event, show the applicable cost of goods sold as program service expense in column (B) of Part IX. No other organizations should report sales of inventory items on line 2.

Common Types of Program Service Revenue:

- Medicare/Medicaid payments, and other payments for medical services
- Fees and contracts from government agencies for a service, facility, or product that primarily benefited the governmental units

Example. A payment by a governmental agency to a medical clinic to provide vaccinations to the general public is a contribution reported on line 1e. A payment by a governmental agency to a medical clinic to provide vaccinations to employees of the agency is program service revenue reported on line 2.

Example. A payment by a governmental agency to an organization to provide job training and placement for disabled individuals is a contribution reported on line 1e. A payment by a governmental agency to the same organization to operate the agency's internal mail delivery system is program service revenue reported on line 2.

- Income from program related investments. Report interest, dividends, and other revenues from those investments made primarily to accomplish the organization's exempt purposes rather than to produce income. Examples of program-related investments include student loans and notes receivable from other exempt organizations that borrowed the funds to pursue the filing organization's exempt function.
- Membership dues and assessments received that compare reasonably with the membership benefits provided by the organization. Organizations described in sections 501(c)(5), (6) or (7) generally provide benefits that have a reasonable relationship with dues.

Examples of membership benefits include:

- subscriptions to publications
- newsletters (other than one only about the organization's activities)
- free or reduced-rate admissions to events sponsored by the organization
- use of the organization's facilities
- discounts on articles or services that members and nonmembers can buy

Caution: For each amount entered on lines 2a through 2e, the organization must also enter a corresponding business code from *Codes for Unrelated Business Activity* from the 2008 Instructions for Form 990-T. If none of the listed codes accurately describe the activity, enter 900099. Use of these codes does not imply that the business activity is unrelated to the organization's exempt purpose.

Line 3. Investment Income. Enter the amount of interest income from savings and temporary cash investments, dividend and interest income from equity and debt **securities** (stocks and bonds), amounts received from payments on securities loans, as defined in section 512(a)(5), as well as interest from notes and loans receivable. Do not include unrealized gains and losses on investments carried at market value.

Line 4. Income from Investment of Tax-Exempt Bond Proceeds. Report all investment income actually or constructively received from investing the **proceeds** of a **tax-exempt bond issue** which are under the control of the organization. For this purpose, do not include any investment income received from investing proceeds which are technically under the control of the **governmental issuer**. For example, proceeds deposited into a **defeasance escrow** which is irrevocably pledged to pay the principal and interest (debt service) on a bond issue is not under the control of the organization.

Line 5. Royalties. Report royalties received by the organization from licensing the use of its property to others. Typically, royalties are received for the use of intellectual property, such as patents and trademarks. Royalties also include payments to the owner of property for the right to exploit natural resources on the property, such as oil, natural gas, or minerals.

Line 6a. Gross Rents. Enter the rental income received for the year from investment property. Allocate revenue to real property and personal property in the spaces provided. Do not include on line 6a rental income related to the filing organization's exempt function (program service). Report such income on line 2. For example, an exempt organization whose exempt purpose is to provide low-rental housing to persons with low income would report that rental income as program service revenue on line 2.

Rental income received from an unaffiliated exempt organization is generally considered unrelated to the filing organization's exempt purpose and reportable on line 6a. However, note an exception given in the instructions for line 2 when the filing organization aids an unaffiliated organization with its exempt function.

Only for purposes of completing this return, the filing organization must report any rental income received from an affiliated exempt organization as program service revenue on line 2.

Rental revenue can be from an activity that is related or unrelated to the organization's exempt purpose. In general, rents from real property are excluded in computing **unrelated business income**, while rental income from personal property is included. There are special rules when rents are received from personal property leased with real property (a mixed lease). In general, rental revenue from real property is excluded from unrelated business revenue when:

- the determination of the amount of such rents is not based on income or net profits derived by any person from the property leased other than an amount based on a fixed percentage of the gross receipts or sales.
- the lease does not include personal services other than customary ones such as trash removal and cleaning of public areas.
- any portion attributable to personal property is 10% or less of the total rent.
- the real property is not debt-financed within the meaning of sections 512, 513 or 514. (Rent from debt-financed real property is generally includible in unrelated business income, but there may be exceptions based on use of the property. See Publication 598.)

Rent received from leased personal property is generally taxable except when leased with real property, and the rent attributable to the personal property does not exceed 10% of the total rents from all leased property.

Line 6b. Less: Rental Expenses. Enter the expenses paid or incurred for the income reported on line 6a. Include interest related to rental property and depreciation if it is recorded in the organization's books and records. If the organization reported in line 2 any rental income reportable as program service revenue, report any rental expense allocable to such activity in the applicable lines of Part IX, column (B).

Line 6c. Rental Income or (Loss). Subtract line 6b from line 6a for both columns (i) and (ii) and enter on line 6c. Show any loss in parentheses.

Line 6d. Net Rental Income or (Loss). Add line 6c, columns (i) and (ii) and enter on line 6d. Show any loss in parentheses.

Lines 7a through 7d. Gains (or Losses) from Sales of Assets Other Than Inventory.

Report, on lines 7a through 7c, all sales of **securities** in column (A). Use column (B) to report sales of all other types of investments (such as real estate, royalty interests, or partnership interests) and all other non-inventory assets (such as program-related investments and fixed assets used by the organization in its related and unrelated activities).

On line 7a, for each column, enter the total gross sales price of all such assets. Total the cost or other basis (less depreciation) and selling expenses and enter the result on line 7b. On line 7c, enter the net gain or loss.

On lines 7a and 7c, also report capital gains dividends, the organization's share of capital gains and losses from a partnership and capital gains distributions from trusts.

Combine the gain or loss figures reported on line 7c, columns (i) and (ii) and report that total on line 7d. Do not include any unrealized gains or losses on **securities** carried at market value in the books of account.

For reporting sales of securities on Form 990, the organization may use the more convenient average cost basis method to figure the organization's gain or loss. When a security is sold, compare its sales price with the average cost basis of the particular security to determine gain or loss. However, for reporting sales of securities on Form 990-T, do not use the average cost basis to determine gain or loss.

The organization should maintain books and records to substantiate information regarding any securities or other assets sold for which market quotations were not published or were not otherwise readily available. The recorded information should include:

- a description of the asset
- date acquired
- whether acquired by donation or purchase
- cost or other basis
- expense of sale
- depreciation

Line 8a. Gross Income from Fundraising Events. If the sum of the amounts reported on lines 1c and 8a exceeds \$15,000, then the organization must answer "Yes" to Part IV, line 18, and complete Schedule G, Supplemental Information Regarding Fundraising Activities, Part II.

Compute the organization's gross income from fees, ticket sales or other revenue from **fundraising events**.

Fundraising events include: <ul style="list-style-type: none">▪ dinners/dances▪ door-to-door sales of merchandise▪ concerts▪ carnivals▪ sports events▪ auctions	Fundraising events do not include: <ul style="list-style-type: none">• sales or gifts of goods or services of only nominal value• raffles or lotteries in which prizes have only nominal value• solicitation campaigns that generate only contributions <p>Proceeds from these activities are considered contributions and should be reported on Line 1c.</p>
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Fundraising events do not include events or activities that substantially further the organization's exempt purpose even if they also raise funds.

Example: An organization formed to promote and preserve folk music and related cultural traditions holds an annual folk music festival featuring concerts, handcraft demonstrations, and similar activities. Because the festival directly furthers the organization's exempt purpose, income from ticket sales should be reported on line 2 as program service revenue.

Fundraising events sometimes generate both **contributions** and income, such as when an individual pays more than the retail value for the goods or services furnished. Report in parentheses the total amount from fundraising events that represents contributions rather than payment for goods or services. Treat the following as contributions:

⇒ Amounts paid in excess of retail value of goods or service furnished. See Example for line 1(c).

⇒ Amounts from **fundraising activities** when items of only nominal value are given or offered.

Example: In return for a contribution of any amount, donors receive a keychain with the organization's logo. All amounts received should be reported as contributions on line 1f and all associated expenses in the appropriate lines in Part IX, Column (D). In such a case, no amounts would be reported on line 8.

Line 8b. Less Direct Expenses. Report the expenses that relate directly to the production of the revenue portion of the fundraising activity. In the line 1(c) dinner example referred to above, the cost of the food and beverages served would be one of the items reported on line 8b. Indirect fundraising expenses, such as advertising, associated with raising these **contributions**, must be reported on the appropriate lines in Part IX, column (D) and not on line 8b.

Line 8c. Net Income or (loss) from Fundraising Events. Report the difference between lines 8a and 8b. The organization must report net income from **fundraising events** as unrelated business revenue (column (C)) or as revenue excluded from tax under sections 512, 513, or 514 (column (D)).

Line 9a. Gross Income from Gaming Activities. Organizations that report more than \$15,000 on line 9a must also answer "Yes" to Part IV, line 19 and complete Schedule G, *Supplemental Information Regarding Fundraising or Gaming Activities*, Part III.

Types of gaming include, but are not limited to:	
<ul style="list-style-type: none"> ▪ bingo ▪ pull tabs ▪ instant bingo ▪ raffles ▪ scratch-offs ▪ charitable gaming tickets ▪ break-opens ▪ hard cards ▪ banded tickets ▪ jar tickets ▪ pickle cards 	<ul style="list-style-type: none"> ▪ Nevada Club tickets ▪ casino nights ▪ Las Vegas nights ▪ coin-operated gambling devices including: <ul style="list-style-type: none"> ▪ slot machines ▪ electronic video slot or line games ▪ video poker ▪ video blackjack ▪ video keno ▪ video bingo ▪ video pull tab games

Many games of chance are taxable. Income from **bingo** games is not subject to the tax on unrelated business income if the games meet the legal definition of bingo. For a game to meet

the legal definition of bingo, wagers must be placed, winners must be determined, and prizes or other property must be distributed in the presence of all persons placing wagers in that game.

A wagering game that does not meet the legal definition of bingo does not qualify for the exclusion, regardless of its name. For example, **instant bingo**, in which a player buys a pre-packaged bingo card with **pull-tabs** that the player removes to determine if he or she is a winner, does not qualify. See Pub. 598, Tax on Unrelated Business Income of Exempt Organizations and Form 990-T.

Line 9b. Less Direct Expenses. Report on this line the expenses that relate directly to the production of the revenue portion of the **gaming** activity.

Direct expenses of gaming include:

- cash prizes
- non-cash prizes
- compensation to **bingo** callers and workers
- rental of gaming equipment
- cost of bingo supplies such as **pull tabs**, etc.

Line 9c. Net Income or (loss) from Gaming Activities. Report the difference between 9a and 9b.

Line 10a. Gross Sales of Inventory, Less Returns and Allowances. Report the organization's gross income from sales of inventory items, less returns and allowances. Sales of inventory items reportable on line 10a are sales of those items the organization makes to sell to others or buys for resale. Sales of inventory do not, however, include the sale of goods related to a **fundraising event**, which must be reported on Line 8. Sales of investments on which the organization expected to profit by appreciation and sale are not reported here. Report sales of investments on line 7.

The organization must report the sales revenue regardless of whether the sales activity is an exempt function of the organization or an **unrelated trade or business**.

Line 10b. Less Cost of Goods Sold. Report the cost of goods sold related to the sales of inventory. The usual items included in cost of goods sold are direct and indirect labor, materials and supplies consumed, freight-in, and a portion of overhead expenses. Marketing and distribution costs are not included in the cost of goods sold but are reported in Column (B), *Program Service Expenses*, of Part IX.

Line 10c. Net Income or (Loss) from Sales of Inventory. Report in the appropriate Columns (A) through (D), the net income or (loss) from the sale of inventory items.

Line 11. Other Revenue. Report all other types of revenue not reportable on lines 1 through 10. List the three largest sources on lines 11a through 11c and all other revenue on line 11d.

Caution: For each amount entered on lines 11a, b and c, the organization must also enter a corresponding business code from *Codes for Unrelated Business Activity* from the 2008 Instructions for Form 990-T. If none of the listed codes accurately describe the activity, enter 900099. Use of these codes does not imply that the business activity is unrelated to the organization's exempt purpose.

Line 12. Total Revenue. For column (A), add lines 1h, 2g, 3 through 5, 6d, 7d, 8c, 9c, 10c, and 11e. For columns (B) through (D), add lines 2a through 2f, 3, 4, 5, 6d, 7d, 8c, 9c, 10c, and 11a through 11d. The amounts reported on line 12 in columns (B), (C), and (D), plus the amount reported on line 1h, should equal line 12, column (A).

Part IX-- Statement of Functional Expenses

Use the organization's normal accounting method to complete this section. If the organization's accounting system does not allocate expenses, the organization may use any reasonable method of allocation. The organization must report amounts accurately and document the method of allocation in its records. Do not report in Part IX expenses that must be reported on lines 6b, 7b, 8b, 9b, or 10b of Part VIII, *Statement of Revenue*.

Column (A)—Total Expenses

Section 501(c)(3) and (c)(4) organizations as well as section 4947(a)(1) nonexempt charitable trusts must complete columns (A) through (D).

All other organizations must complete column (A) but may complete columns (B), (C), and (D).

Caution: State reporting requirements may be different from IRS reporting requirements applicable to Part IX.

Column (B)—Program Service Expenses

Program services are mainly those activities that further the organization's exempt purposes. Fundraising expenses should not be reported as program-service expenses even though one of the organization's purposes is to solicit **contributions**.

Include **lobbying** expenses in this column if the lobbying is directly related to the organization's exempt purposes.

Example. Foundation M, an organization exempt under section 501(c)(3), has the exempt purpose of improving health care for senior citizens. Foundation M operates in state N. The legislature of state N is considering legislation to improve funding of health care for senior citizens. Foundation M lobbies state legislators in support of the legislation. Since this lobbying is directly related to Foundation M's exempt purpose, it would be considered an exempt function expense, and would be included under Column (B).

Program services can also include the organization's **unrelated trade or business** activities. Publishing a magazine is a program service even though the magazine contains both editorials and articles that further the organization's exempt purpose as well as advertising, the income from which is taxable as **unrelated business income**.

Also include costs to secure a grant to conduct research, produce an item, or perform a service, whether the activities were conducted to meet the grantor's specific needs or to benefit the public directly. Do not report these costs as fundraising expenses in column (D), even if the organization reports the grant on Part VIII, line 1, as a **contribution**.

Column (C) — Management and General Expenses

Use Column (C) to report expenses that relate to the organization's overall operations and management, rather than to **fundraising activities** or program services. Overall management usually includes the salaries and expenses of the organization's chief executive officer and his

or her staff, unless a part of their time is spent directly supervising program services or fundraising activities. In that case, their salaries and expenses should be allocated among management, fundraising, and program services.

Expenses incurred to manage investments must be reported in column (C). **Lobbying** expenses should be reported in this column if they do not directly relate to the organization's exempt purposes.

Organizations must also report the following in column (C): costs of board of directors meetings; committee meetings, and staff meetings (unless they involve specific program services or **fundraising activities**); general legal services; accounting (including patient accounting and billing); general liability insurance; office management; auditing, human resources, and other centralized services; preparation, publication, and distribution of an annual report; and management of investments.

However, report expenses related to the production of program-related income in column (B) and expenses related to the production of rental income on Line 6b of Part VIII, Statement of Revenue. Rental expenses incurred for the organization's office space or facilities are reported on Line 16 of the Statement of Functional Expenses.

Do not use this column to report costs of special meetings or other activities that relate to fundraising or specific program services.

Column (D) — Fundraising Expenses

Fundraising expenses are the expenses incurred in soliciting **contributions**, gifts, and grants. Report as fundraising expenses all expenses, including allocable overhead costs, incurred in: (a) publicizing and conducting fundraising campaigns; and (b) soliciting bequests and grants from foundations or other organizations, or government grants reportable on Part VIII, line 1. This includes participating in federated fundraising campaigns; preparing and distributing fundraising manuals, instructions, and other materials; and conducting **fundraising events** that generate contributions reportable on Part VIII, line 1c, or revenue reportable on Part VIII, line 8a.

Example: For an employee who works on fundraising 40 percent of the time and program management 60 percent of the time, an organization must allocate that employee's salary 40 percent to fundraising and 60 percent to program service expenses. It may not report the 100 percent of salary as program expenses simply because the employee spent over 50 percent of his time on program management.

Allocating Indirect Expenses

Direct costs are expenses that can be identified specifically with an organization's activity or project, and can be assigned to an activity or project with a high degree of accuracy. Indirect costs are costs that cannot be identified specifically with an activity or project. For example, a computer bought by a university specifically for a research project is a direct cost. In contrast, the costs of software licensing for programs that run on all the university's computers are indirect costs.

Colleges, universities, hospitals, and other organizations that incur indirect expenses in various cost centers (such as organizational memberships, books and subscriptions, and regular telecommunications costs) may allocate and report such expenses in the following manner:

1. Report the expenses of all indirect cost centers in column (C) of lines 5 through 24.

2. As a separate line item of line 24, enter "Allocation of [name of indirect cost center] expenses".
 - a. If any of the cost center's expenses are allocated to expenses listed in Part VIII such as the expenses attributable to **fundraising events** and activities, enter such expenses as a negative figure in columns (A) and (C).
 - b. Allocate expenses to column (B) or (D) as positive amounts.
 - c. Add the amounts in columns (B) and (D) and enter the sum as a negative offsetting amount in column (C). Do not make any entries in column (A) for these offsetting entries.

Example: An organization reports in column (C) \$50,000 of its actual management and general expenses and \$100,000 of expenses of an indirect cost center that are allocable in part to other functions. The total of lines 5 through 24 of column (C) would be \$150,000 before the indirect cost center allocations were made. Assume that of the \$100,000 total expenses of the cost center, \$10,000 was allocable to fundraising; \$70,000 to various program services; \$15,000 to management and general functions; and \$5,000 to special events and activities. To report this in Part IX under this optional method:

1. Indicate the cost center, the expenses of which are being allocated, on line 24, as Allocation of [specify the indirect cost center] expenses;
2. Enter a decrease of \$5,000 on the same line in the column (A), *Total*, representing the fundraising event expenses that were already reported on Part VIII, line 8b;
3. Enter \$70,000 on the same line in column (B), *Program service expenses*;
4. Enter \$10,000 on the same line in column (D), *Fundraising expenses*; and
5. Enter a decrease of \$85,000 on the same line in column (C), *Management and general expenses*, to represent the allocations to functional areas other than management and general.

Line	(A)	(B)	(C)	(D)
5 – 24a	\$150,000	-	\$150,000	-
24b Allocation of \$100,000 indirect cost center expenses reported in (C)	(5,000)	70,000	(85,000)	10,000
25	\$145,000	\$70,000	\$65,000	\$10,000

After making these allocations, the column (C) total (line 25, column (C)) would be \$65,000, consisting of the \$50,000 actual management and general expense amount and the \$15,000 allocation of the aggregate cost center expenses to management and general.

The above is an example of a one-step allocation that shows how to report the allocation in Part IX. This reporting method would actually be more useful to avoid multiple step allocations involving two or more cost centers. Without this optional reporting method, the total expenses of the first cost center would be allocated to the other functions, and might include an allocation of part of these expenses to another cost center. The expenses of the second cost center would then be allocated to other functions and, perhaps, to other cost centers, and so on. The greater the number of these cost centers that are allocated out, the more difficult it is to preserve the object classification identity of the expenses of each cost center (for example, salaries, interest, supplies, etc.). Using the reporting method described above avoids this problem.

Caution: The intent of the above instructions is only to facilitate reporting indirect expenses by both object classification and function. These instructions do not authorize the allocation to other functions of expenses that should be reported as management and general expenses.

Grants and other Assistance to Governments, Organizations and Individuals

Organizations should report the amount of **grants and other assistance** on lines 1 through 3. See instructions below. Report expenses incurred in selecting recipients or monitoring compliance with the terms of a grant or award on lines 5 through 24.

Note: Organizations may report this information in accordance with Statement of Financial Accounting Standards (**SFAS 116**) but are not required to do so. For example, an organization that follows SFAS 116 and makes a grant during the **tax year** to be paid in future years should report the grant's present value on this year's Form 990 and report accruals of additional value increments in future years.

Line 1. Grants to Governments and Organizations in the U.S. Enter the amount that the organization, at its own discretion, paid in grants to **governmental units** and other organizations in the **United States**. United Way and similar federated fundraising organizations should report grants to member or participating agencies on line 1. Organizations must report voluntary grants to state or local affiliates for specific (restricted) purposes or projects on line 1.

If line 1 exceeds \$5,000, the organization must complete Parts I and II of Schedule I, Grants and Other Assistance to Organizations, Governments and Individuals in the U.S.

Line 2. Grants and Other Assistance to Individuals in the U.S. Enter the amount paid by the organization to individuals in the **United States** in the form of scholarships, fellowships, stipends, research grants, and similar payments and distributions.

Also include **grants and other assistance** paid to third party providers for the benefit of specified individuals. For example, a grant payment to a hospital to cover the medical expenses of a particular patient must be reported on line 2. By comparison, a grant to the same **hospital** to provide services to the general public or to unspecified charity patients must be reported on line 1.

If line 2 exceeds \$5,000, the organization must complete Parts I and III of Schedule I.

Line 3. Grants and Other Assistance to Governments, Organizations, and Individuals Outside the U.S. The organization must enter the total amount of **grants and other assistance** made to **foreign governments, foreign organizations, and foreign individuals** outside the **United States**.

If line 3 exceeds \$5,000, the organization may have to complete Parts II and/or III of Schedule F, Statement of Activities Outside the United States. See instructions for Schedule F for more information.

Line 4. Benefits Paid to or for Members. Enter the payments made by the organization to provide benefits to members (such as payments made by an organization exempt under sections 501(c)(8), (9), or (17) to obtain insurance benefits for members). Do not report on this line the cost of employment-related benefits such as health insurance, life insurance, or disability insurance provided by the organization to its **officers** and **employees**. Report those expenses on lines 8 and 9.

Line 5. Compensation of Current Officers, Directors, and Key Employees.

TIP: Compensation for Part IX is to be reported based on the accounting method and reporting period used by the organization, rather than the definitions and calendar year used to complete Part VII or Schedule J regarding compensation of certain **officers, directors, trustees** and other **employees**.

Enter the total **compensation** paid to current **officers, directors, trustees, and key employees** for the organization's **tax year**. Compensation includes all forms of income and other benefits earned or received in return for services rendered, including pension plan contributions and other employee benefits, but does not include non-compensatory expense reimbursements or allowances. Report all compensation amounts relating to such an individual, including those related to services performed in a capacity other than as an officer, director, trustee, or key employee.

Examples:

Note: To the extent that these examples discuss allocation of expenses in columns B, C, and D, they apply only to filers required to complete those columns.

(1) Key employee A spent 90% of her time administering a program that constitutes the basis of the organization's exempt purpose and 10% of her time in the general management of the organization itself. Allocate 90% of key employee A's compensation to column (B), Program service expenses, and 10% to column (C), Management and general expenses.

(2) Director B is not paid as a member of the board, but is employed and compensated by the organization as a part-time fundraiser. Allocate 100% of Director B's compensation to column (D), fundraising.

(3) Key Employee C receives \$100,000 of salaries and wages. In addition, the organization paid \$25,000 of fringe benefits, \$10,000 of non-compensatory travel reimbursements, and \$7,500 of pension plan contributions relating to C. The organization reports \$132,500 as compensation on line 5 and reports the \$10,000 of expense reimbursements on line 17.

Line 6. Compensation, Not Included Above, to Disqualified Persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Sections 501(c)(3) and 501(c)(4) organizations must report the total **compensation** and other distributions provided to disqualified persons and persons described under section 4958(c)(3)(B) not included on line 5.

Compensation includes all forms of income and other benefits earned or received in return for services rendered, including pension plan contributions and other employee benefits, but does not include non-compensatory expense reimbursements or allowances.

Line 7. Other Salaries and Wages. Enter the total amount of **employee** salaries, wages, fees, bonuses, severance payments, and similar amounts not reported on lines 5 or 6.

Line 8. Pension Plan Contributions. Enter the employer's share of contributions to qualified and nonqualified pension plans for the year. The organization should include contributions made to 401(k) and 403(b) pension plans on behalf of **employees**. However, it should not include contributions to qualified pension, profit-sharing, and stock bonus plans under section 401(a) solely for the benefit of current or former **officers, directors, trustees, or key employees** that are reportable on lines 5 or 6.

TIP: Complete Form 5500, Annual Return/Report of Employee Benefit Plan, for the organization's plan and file it as a separate return. If the organization has more than one pension plan, complete a Form 5500 for each plan. File the form by the last day of the 7th month after the plan year ends.

Line 9. Other Employee Benefits. Enter the organization's contributions to employee benefit programs (such as insurance, health, and welfare programs that are not an incidental part of a pension plan included on line 8), and the cost of other employee benefits.

For example, report expenses for employee events such as a picnic or holiday party on line 9. Do not include **contributions** on behalf of current or former **officers, directors, trustees, key employees** or other persons that were included on lines 5 or 6.

Line 10. Payroll Taxes. Enter the amount of federal, state, and local payroll taxes for the year but only those taxes that are imposed on the organization as an employer. This includes the employer's share of Social Security and Medicare taxes, the federal unemployment tax (FUTA), state unemployment compensation taxes, and other state and local payroll taxes. Do not include on line 10 taxes withheld from employees' salaries and paid to various governmental units such as federal, state, and local income taxes and the employees' shares of Social Security and Medicare taxes. Such withheld amounts are reported as compensation.

Line 11. Fees for Services Paid to Non-Employees (Independent Contractors). Enter on lines 11a through 11g amounts for services provided by **independent contractors** for management, legal, accounting, lobbying, **professional fundraising services**, investment management, and other services, respectively. Include amounts regardless of whether a Form 1099 was issued to the independent contractor. Do not include on line 11 amounts paid to or earned by **employees** for these types of services, which must be reported on lines 5 through 7.

Line 11a. Management Fees. Enter the total fees charged for management services provided by outside firms and individuals.

Line 11b. Legal Fees. Enter the total legal fees charged by outside firms and individuals. Do not include any penalties, fines, settlements or judgments imposed against the organization as a result of legal proceedings. Report those expenses on line 24, Other expenses. Report any amounts for lobbying services provided by attorneys on line 11d.

Line 11c. Accounting Fees. Enter the total accounting and auditing fees charged by outside firms and individuals.

Line 11d. Lobbying Fees. Enter amounts for activities intended to influence foreign, national, state, or local legislation, including direct **lobbying** and grassroots lobbying. Do not include activities to influence actions by executive, judicial, or administrative officials or bodies, or other advocacy services. Report these amounts on line 11g.

Line 11e. Professional Fundraising Fees. Enter amounts paid for **professional fundraising services**, including solicitation campaigns and advice or other consulting services supporting in-house fundraising campaigns. If the organization is able to distinguish between fees paid for professional fundraising services and amounts paid for fundraising expenses such as printing, paper, envelopes, postage, mailing list rental, and equipment rental, then fees paid for professional fundraising services should be reported on line 11e and amounts paid for

fundraising expenses should be reported on line 24 as other expenses. If the organization is unable to distinguish between these amounts, it should report all such fees and amounts on line 11e.

Line 11f. Investment Management Fees. Enter amounts for investment counseling and portfolio management. Monthly account service fees are considered portfolio management expenses, and must be reported here. Do not include transaction costs such as brokerage fees and commissions, which are considered sales expenses and are included on Part VIII, line 7b.

Line 11g. Other Fees for Services. Enter amounts for other **independent contractor** services not listed on lines 11a through 11f. For example, amounts paid to an independent contractor for advocacy services that do not constitute lobbying should be reported here. For health care organizations, payments to health care professionals who are independent contractors are reported on line 11g.

Line 12. Advertising Expenses. Enter amounts paid for advertising. Include amounts for print and electronic media advertising. Also include Internet site link costs, signage costs, and advertising costs for the organization's in-house fundraising campaigns. Do not include fees paid to **independent contractors** for conducting **professional fundraising services** or campaigns (these amounts must be reported on line 11e).

Line 13. Office Expenses. Enter amounts for supplies (office, classroom, medical, or other supplies); telephone (cell phones and landlines) and facsimile; postage (overnight delivery, parcel delivery, trucking, and other delivery expenses) and mailing expenses; shipping materials; equipment rental; bank fees and other similar costs. Also include printing costs of a general nature. Printing costs that relate to conferences or conventions must be reported on line 19.

Line 14. Information Technology. Enter amounts for information technology, including hardware, software, and support services, such as maintenance, help desk, and other technical support services. Also include expenses for infrastructure support, such as web site design and operations, and virus protection and other information security programs and services to keep the organization's web site operational and secured against unauthorized and unwarranted intrusions.

Line 15. Royalties. Enter amounts for royalties, license fees and similar amounts that allow the organization to use intellectual property such as patents and copyrights.

Line 16. Occupancy. Enter amounts for the use of office space or other facilities, including rent, heat, light, power, and other utilities expenses; property insurance; real estate taxes; mortgage interest; and similar occupancy-related expenses. Do not include expenses reportable as office expenses such as telephone expenses, on line 13.

Do not net any rental income received from leasing or subletting rented space against the amount reported on line 16 for occupancy expenses. If the tenant's activities are related to the organization's exempt purpose, report rental income as program-service revenue on Part VIII, line 2, and allocable occupancy expenses on this line 16. However, if the tenant's activities are not program-related, report the rental income on Part VIII, line 6a, and related rental expenses on Part VIII, line 6b.

Do not include employee salaries or depreciation as occupancy expenses. These expenses are reported on lines 5 through 7 and 22, respectively.

Line 17. Travel. Enter the total travel expenses, including transportation costs (fares, mileage allowances, and automobile expenses), meals and lodging, and per diem payments. Travel costs include the expenses of purchasing, leasing, operating, and repairing any vehicles owned by the organization and used for the organization's activities. However, if the organization leases vehicles on behalf of its executives or other employees as part of an executive or employee compensation program, the leasing costs are considered employee compensation, and are reported on lines 5 through 7.

Line 18. Payments of Travel or Entertainment Expenses for any Federal, State or Local Public Officials. Enter total amounts for travel or entertainment expenses (including reimbursement for such costs) for any federal, state or local public officials (as determined under section 4946(c)) and their family members (as determined under 4946(d)). Report amounts for a particular public official only if aggregate expenditures for the year relating to such official (including family members of such official) exceed \$1,000 for the year.

For expenditures that are not specifically identifiable to a particular individual, the organization may use any reasonable allocation method to estimate the cost of the expenditure to an individual. Amounts not described above may be included in the reported total amount for line 18 or may be reported on line 24, Other expenses. The organization is responsible for keeping records of all travel and entertainment expenses related to a **government official** regardless of whether reported on line 18 or line 24.

Line 19. Conferences, Conventions, and Meetings. Enter the total expenses incurred by the organization in conducting meetings related to its activities. Include such expenses as facility rentals, speakers' fees and expenses, and printed materials. Include the registration fees (but not travel expenses) paid for sending any of the organization's staff to conferences, conventions, and meetings conducted by other organizations. Travel expenses incurred by **officers, directors, and employees** attending such conferences, conventions and meetings must be reported on line 17.

Line 20. Interest. Enter the total interest expense for the year. Do not include any interest attributable to rental property (reported on Part VIII, line 6b) or any mortgage interest (reported as an occupancy expense on line 16).

Line 21. Payments to Affiliates. Enter certain types of payments to organizations affiliated with (closely related to) the filing organization.

Payments to affiliated state or national organizations. Dues paid by a local organization to its affiliated state or national (parent) organization are reported on line 21. Report on this line predetermined quota support and dues (excluding membership dues of the type described below) by local agencies to their state or national organizations for unspecified purposes; that is, general use of funds for the national organization's own program and support services.

Purchases from affiliates. Purchases of goods or services from affiliates are not reported on line 21 but are reported as expenses in the usual manner.

Expenses for providing goods or services to affiliates. In addition to payments made directly to affiliated organizations, expenses for providing goods or services to affiliates may be reported on line 21 if:

1. The goods or services provided are not related to the program services conducted by the organization furnishing them (for example, when a local organization incurs expenses in the production of a solicitation film for the state or national organization); and
2. The costs involved are not connected with the management and general or fundraising functions of the filing organization. For example, when a local organization gives a copy of its mailing list to the state or national organization, the expense of preparing the copy provided may be reported on line 21, but not the expenses of preparing and maintaining the local organization's master list.

Federated fundraising agencies. Federated fundraising agencies should include in their own support, and report in Part VIII, line 1, the full amount of **contributions** received in connection with a solicitation campaign they conduct, even though donors designate specific agencies to receive part or all of their individual contributions. These fundraising agencies must report the allocations to participating agencies as grants and allocations on line 1, and quota support payments to their state or national organization as payments to affiliates on line 21.

Voluntary awards or grants to affiliates. Do not report on line 21 voluntary awards or grants made by the organization to its state or national organizations for specified purposes.

Membership dues paid to other organizations. Report membership dues paid to obtain general membership benefits from other organizations, such as regular services, publications, and other materials, from other organizations as miscellaneous expenses on line 24. This is the case, for example, if a charitable organization pays dues to a trade association comprised of otherwise unrelated members.

TIP: Properly distinguishing between payments to affiliates and grants and allocations is especially important if the organization uses Form 990 for state reporting purposes. If the organization uses Form 990 only for reporting to the IRS, payments to affiliated or national organizations that do not represent membership dues reportable as miscellaneous expenses on line 24 may be reported either on line 21 or line 1.

Line 22. Depreciation, Depletion, and Amortization. If the organization records depreciation, depletion, amortization, or similar expenses, enter the total on line 22. Include any depreciation or amortization of leasehold improvements and intangible assets. An organization is not required to use the Modified Accelerated Cost Recovery System (MACRS) to compute depreciation reported on Form 990. For an explanation of acceptable methods for computing depreciation see Publication 946. If an amount is reported on this line, the organization is required to maintain books and records to substantiate any amount reported.

Line 23. Insurance. Enter total insurance expenses other than insurance attributable to rental property (reported on Part VIII, Statement of Revenue, line 6b). Do not report on this line payments made by organizations exempt under sections 501(c)(8), (9), or (17) to obtain insurance benefits for members. Report those expenses on line 4. Do not report on this line the cost of employment-related benefits such as health insurance, life insurance, or disability insurance provided by the organization to its **officers** and **employees**. Report those expenses on lines 8 and 9. Do not report on this line property or occupancy-related insurance. Report those expenses on line 16.

Line 24. Other Expenses. Enter the types and amounts of miscellaneous expenses which were not reportable on lines 1 through 23. Include payments by the organization to professional fundraisers of fundraising expenses such as printing, paper, envelopes, postage, mailing list rental, and equipment rental, if the organization is able to distinguish these expense amounts from fees for professional fundraising services reportable on line 11e. Enter the 5 largest dollar amounts on lines 24a through 24e and the total of all remaining expenses on line 24f. However, the organization must separately report the amount, if any, of **unrelated business income** taxes on line 24. If lines 24a through 24e contain an amount labeled “other expenses” or “miscellaneous expenses” or something similar, the amount reported cannot exceed 5% of the total expenses reported on line 25.

Line 25. Total Functional Expenses. 501(c)(3) and (c)(4) organizations and section 4947(a)(1) nonexempt charitable trusts: Add lines 1 through 24f and enter the totals on line 25 in columns (A), (B), (C), and (D).

All other organizations: Add lines 1 through 24f and enter the total on line 25 in column (A).

Line 26. Joint Costs. Organizations that included in program service expenses (column (B) of Part IX) any joint costs from a combined educational campaign and fundraising solicitation must disclose how the total joint costs of all such combined activities were reported in Part IX.

Organizations checking the box in line 26 must furnish the relevant financial data in the spaces provided. Any costs reported here are not to be deducted from the other lines in Part IX on which they are reported.

An organization conducts a combined educational campaign and fundraising solicitation when it solicits **contributions** (by mail, telephone, broadcast media, or any other means) and includes, with the solicitation, educational material or other information that furthers a bona fide non-fundraising exempt purpose of the organization.

Expenses attributable to providing information regarding the organization itself, its use of past contributions, or its planned use of contributions received are fundraising expenses and must be reported in Column (D). Do not report such expenses as program service expenses in Column (B).

Any method of allocating joint costs between columns (B) and (D) must be reasonable under the facts and circumstances of each case. Most states with reporting requirements for charitable organizations and other organizations that solicit contributions either require or allow reporting of joint costs under AICPA Statement of Position 98-2 (SOP 98-2)..

Part X Balance Sheet

All organizations must complete Part X and may not submit a substitute balance sheet. All references to Schedule D are to Schedule D (Form 990), *Supplemental Financial Statements*.

Column (A) – Beginning of Year

In column (A), enter the amount from the preceding year's Form 990 column (B). If the organization was excepted from filing Form 990 for the preceding year, enter amounts the organization would have entered in column (B) for that year. If this is the organization's first year of existence, enter zeros on lines 16, 26, 33, and 34 in column (A).

Column (B) – End of Year

When Schedule D reporting is required for any item in Part X, it is only for the end-of-year balance sheet figure reported in column (B). If this is the organization's final return, enter zeros on lines 16, 26, 33, and 34 in column (B).

Line 1. Cash (Non-Interest Bearing). Enter the total funds that the organization has in cash, including amounts held as "petty cash" at its offices or other facilities, and amounts held in banks in non-interest bearing accounts. Do not include cash balances held in an investment account with a financial institution and reported on lines 11 through 13.

Line 2. Savings and Temporary Cash Investments. Enter the combined total of amounts held in interest-bearing checking and savings accounts, deposits in transit, temporary cash investments (such as money market funds, commercial paper, and certificates of deposit), and U.S. Treasury bills or other governmental obligations that mature in less than a year. Do not include cash balances held in an investment account with a financial institution and reported on lines 11 through 13. Do not include advances to **employees** or **officers** or refundable deposits paid to suppliers or other **independent contractors**. Report the income from these investments on Part VIII, line 3.

Line 3. Pledges and Grants Receivable, Net. Enter the total of (a) all pledges receivable, less any amounts estimated to be uncollectible, including pledges made by **officers, directors, trustees**, or other related parties, and (b) all grants receivable.

Organizations that follow Statement of Financial Accounting Standards (SFAS) 116 may report the present value of the grants receivable as of each balance sheet date.

Line 4. Accounts Receivable, Net. Enter the organization's total accounts receivable (reduced by any allowance for doubtful accounts) from the sale of goods and the performance of services. Report claims against vendors or refundable deposits with suppliers or others here, if not significant in amount. Otherwise, report them on line 15, Other assets. Report the net amount of all receivables due from **officers, directors, trustees**, or **key employees** on line 5. Report receivables (including loans and advances) due from other disqualified persons on line 6. Receivables (including loans and advances) from **employees** who are not current or former officers, directors, trustees, key employees, or **disqualified persons** must be reported on line 7.

Line 5. Receivables from Current Officers, Directors, Trustees, Key Employees. Report all receivables due from current or former **officers, directors, trustees, key employees, highest compensated employees**, and other related parties. The receivables reportable here include all secured and unsecured loans made to such persons. Do not report pledges from such persons which are to be reported in line 3. For credit unions, include here only loans or other receivables that are not made on the same terms as to other members of the organization. Report interest from such receivables on Part VIII, line 11.

The organization that reports such receivables on this line may need to answer "Yes" to Part IV, line 26 and complete Schedule L, Loans to Interested Persons, Part II. See Instructions to Schedule L, Part II.

Line 6. Receivables from Other Disqualified Persons. Section 501(c)(3) and 501(c)(4) organizations report the receivables due from disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(3)(B). Do not include on line 6 amounts

reported on line 5. The organization must also answer "Yes" to Part IV, line 26 and complete Schedule L, Part II.

Line 7. Notes and Loans Receivable, Net. Enter the net amount of all notes receivable and loans receivable not listed on lines 5 and 6, including receivables from unrelated third parties. The term "unrelated third parties" includes **independent contractors** providing goods or services and **employees** who are not current or former **officers, directors, trustees, key employees**, or **disqualified persons**. Do not include the following:

- . Receivables reportable on line 4.
- . Program-related investments reportable on line 13.
- . Notes receivable acquired as investments reportable on line 12.

Line 8. Inventories for Sale or Use. Enter the amount of materials, goods, and supplies held for future sale or use, whether purchased, manufactured by the organization, or donated.

Line 9. Prepaid Expenses and Deferred Charges. Enter the amount of short-term and long-term prepayments of expenses attributable to one or more future accounting periods. Examples include prepayments of rent, insurance, or pension costs, and expenses incurred for a solicitation campaign to be conducted in a future accounting period.

Line 10a. Land, Buildings, and Equipment. Enter the cost or other basis of all land, building, and equipment held at the end of the year. Include both property held for investment purposes and property used for the organization's exempt functions. If an amount is reported here, answer "Yes" to Part IV, line 11 and complete Schedule D, Part VI. The amount reported on line 10a must equal the total of Schedule D, Part VI, columns (a) and (b).

Line 10b. Accumulated Depreciation. Enter the total amount of accumulated depreciation with respect to the assets reported on line 10a. The amount reported on line 10b must equal the total of Schedule D, Part VI, column (c).

Line 10c. Column (A) Beginning of Year. Enter the cost or other basis of land, buildings, and equipment, net of any accumulated depreciation, as of the beginning of the year.

Line 10c. Column (B) End of Year. Enter line 10a minus line 10b. The amount reported must equal the total of Schedule D, Part VI, column (d).

Line 11. Investments: Publicly Traded Securities. Enter the total value of **publicly traded securities** held by the organization as investments. Publicly traded securities include common and preferred stocks, bonds (including governmental obligations such as bonds and Treasury bills), and mutual fund shares that are listed and regularly traded in an over-the-counter market or an established exchange and for which market quotations are published or are otherwise readily available. Report dividends and interest from these **securities** on Part VIII, line 3.

Do not report on line 11 publicly traded stock for which the organization holds 5% or more of the outstanding shares of the same class. Report these investments on line 12.

Line 12. Investments –Other Securities. Report on this line the total amount of all **securities**, partnerships, or funds that are not publicly traded. This includes stock in a closely held company whose stock is not available for sale to the general public or which is not widely traded. Other securities also include publicly traded stock for which the organization holds 5%

or more of the outstanding shares of the same class. Do not include program related investments.

If an amount is reported on this line that is 5% or more of the amount reported on Part X, line 16, answer "Yes" to Part IV, line 11 and complete Schedule D, Part VII. The amount reported on line 12, column (B) must equal the total of Schedule D, Part VII, column (b).

Line 13. Program-Related Investments. Report here the total book value of all investments made primarily to accomplish the organization's exempt purposes rather than to produce income. Examples of program-related investments include student loans and notes receivable from other exempt organizations that obtained the funds to pursue the filing organization's exempt function.

If the amount reported on this line is 5% or more of the amount reported on Part X, line 16, answer "Yes" to Part IV, line 11 and complete Schedule D, Part VIII. The amount reported on line 13, column (B) must equal the total of Schedule D, Part VIII, column (b).

Line 14. Intangible Assets. Report on this line the total value of all non-monetary, non-physical assets such as copyrights, patents, trademarks, mailing lists, or goodwill.

Line 15. Other Assets. Report on this line the total book value of all assets held and not reported on lines 1 through 14.

If an amount is reported on this line that is 5% or more of the amount reported on Part X, line 16, answer "Yes" to Part IV, line 11 and complete Schedule D, Part IX. The amount reported on line 15, column (B) must equal the total of Schedule D, Part IX, column (b).

Line 16. Total Assets. The organization should add the totals in columns (A) and (B), lines 1 through 15. The amounts on line 16 must equal the amounts on line 34 for both the beginning and end of the year. All filers must enter a zero or a dollar amount on this line.

Line 17. Accounts Payable and Accrued Expenses. Enter the total of accounts payable to suppliers, service providers, property managers and other **independent contractors**, plus accrued expenses such as salaries payable, accrued payroll taxes, and interest payable.

Line 18. Grants Payable. Enter the unpaid portion of grants and awards that the organization has committed to pay other organizations or individuals, regardless of whether the commitments have been communicated to the grantees.

Line 19. Deferred Revenue. Report revenue that the organization has received but not yet earned as of the balance sheet date under its method of accounting.

Line 20. Tax-Exempt Bond Liabilities. Enter the amount of **tax-exempt bonds** (or other obligations) for which the organization has a direct or indirect liability which were either issued by the organization on behalf of a state or local governmental unit, or by a state or local governmental unit on behalf of the organization, and for which the organization has a direct or indirect liability. Tax-exempt bonds include state or local bonds and any obligations, including direct borrowing from a lender, or certificates of participation, the interest on which is excluded from the gross income of the recipient for federal income tax purposes under section 103

See also Part IV, line 24, and Schedule K, Supplemental Information on Tax-Exempt Bonds.

Line 21. Escrow Account Liability. Enter the amount of funds or other assets held in an **escrow or custodial account** for other individuals or organizations. Enter these amounts only if the related assets (such as cash) are reported on lines 1 through 15 above. If an amount is reported on this line, the organization must also answer “Yes” to Part IV, line 9 and complete Schedule D, Part IV. If the organization has signature authority over, or another interest in an escrow or custodial account for which it does not report the assets or liabilities, it must also answer “Yes” to Part IV, line 9 and complete Schedule D, Part IV.

Example: A credit counseling organization collects amounts from debtors to remit to creditors and reports the amounts temporarily in its possession as cash on line 1 of the balance sheet. It must then report the corresponding liability (the amounts to be paid to the creditors on the debtors’ behalf) on line 21.

Line 22. Payables to Current and Former Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Disqualified Persons. Enter the unpaid balance of loans payable to current and former **officers, directors, trustees, key employees, highest compensated employees**, and **disqualified persons**. An organization that reports a balance here may need to answer “Yes” to Part IV, line 26 and complete Schedule L, Transactions with Interested Persons, Part II.

Line 23. Secured Mortgages and Notes Payable to Unrelated Third Parties. Enter the total amount of mortgages and other notes payable to financial institutions and other third parties that are secured by investment or other real property as of the end of the **tax year**.

Line 24. Unsecured Notes and Loans Payable. Enter the total amount of notes and loans payable that are owed to financial institutions or other unrelated third parties but are not secured by the organization’s assets.

Line 25. Other Liabilities. Enter the total amount of all liabilities not properly reportable on lines 17 through 24. Items properly reported on this line include Federal income taxes payable and secured or unsecured payables to related organizations. The organization must also answer “Yes” to Part IV, line 11 and complete Schedule D, Part X.

Line 26. Total Liabilities. The organization should add the totals in columns (A) and (B), lines 17 through 25. All organizations must enter a zero or a dollar amount on this line.

Net Assets and Fund Balances

The Financial Accounting Standards Board issued *Financial Statements of Not-for-Profit Organizations (SFAS 117)*. SFAS 117 provides standards for external financial statements certified by an independent accountant for certain types of nonprofit organizations. SFAS 117 does not apply to credit unions, voluntary employees’ beneficiary associations, supplemental unemployment benefit trusts, section 501(c)(12) cooperatives, and other member benefit or mutual benefit organizations.

While some states may require reporting in accordance with SFAS 117, the IRS does not. However, a Form 990 return prepared in accordance with SFAS 117 will be acceptable to the IRS.

Organizations that follow SFAS 117. If the organization follows **SFAS 117**, check the box above line 27, and complete lines 27 through 29 and lines 33 and 34. Classify and report net

assets in three groups—unrestricted, temporarily restricted, and permanently restricted—based on the existence or absence of donor-imposed restrictions and the nature of those restrictions. Show the sum of the three classes of net assets on line 33. On line 34, add the amounts on lines 26 and 33 to show total liabilities and net assets. This figure must be the same as the figure for *Total Assets* on line 16.

CAUTION: At the time these instructions went to print, the Financial Accounting Standards Board was considering adopting FASB Staff Position 117-a effective for reporting years ending after December 15, 2008. FASB Staff Position 117-a addresses reporting of endowments as permanently restricted or temporarily restricted funds. Further, a number of states have enacted or are considering enacting the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). If the organization is subject to UPMIFA or FASB Staff Position 117-a, it may affect the amounts reported in lines 27 through 29.

Line 27. Unrestricted Net Assets. Enter the balance per books of unrestricted net assets. Unrestricted net assets are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. All funds without donor-imposed restrictions must be classified as unrestricted, regardless of the existence of any board designations or appropriations.

Line 28. Temporarily Restricted Net Assets. Enter the balance per books of temporarily restricted net assets. Donors’ temporary restrictions may require that resources be used after a specified date (time restrictions), or that resources be used for a specified purpose (purpose restrictions), or both.

Line 29. Permanently Restricted Net Assets. Enter the balance per books of permanently restricted net assets. Permanently restricted net assets are (a) assets, such as land or works of art, donated with stipulations that they be used for a specified purpose, be preserved, and not be sold or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The latter results from gifts or bequests that create permanent endowment funds.

Organizations that do not follow SFAS 117. If the organization does not follow **SFAS 117**, check the box above line 30 and complete lines 30 through 34. Report capital stock, trust principal, or current funds on line 30. Report paid-in capital surplus or land, building, or equipment funds on line 31. Report retained earnings, endowment, accumulated income or other funds on line 32.

Line 30. Capital Stock, Trust Principal, or Current Funds. For corporations, enter the balance per books of capital stock accounts. Show par or stated value (or for stock with no par or stated value, total amount received on issuance) of all classes of stock issued and not yet cancelled. For trusts, enter the amount in the trust principal or corpus. For organizations using the fund method of accounting, enter the fund balances for the organization’s current restricted and unrestricted funds.

Line 31. Paid-In or Capital Surplus, or Land, Building, and Equipment Fund. Enter the balance of paid-in capital in excess of par or stated value for all stock issued and not yet cancelled, as recorded on the corporation’s books. If stockholders or others made donations that the organization records as paid-in capital, include them here. Enter the fund balance for the land, building, and equipment fund on this line.

Line 32. Retained Earnings or Accumulated Income, Endowment, or Other Funds. For corporations, enter the balance of retained earnings as recorded on the corporation's books, or similar account, minus the cost of any corporate treasury stock. For trusts, enter the balance in the accumulated income or similar account. For those organizations using the fund method of accounting, enter the total of the fund balances for the permanent and term endowment funds as well as balances of any other funds not reported on lines 30 and 31.

Line 33. Total Net Assets or Fund Balances. For organizations that follow **SFAS 117**, enter the total of lines 27 through 29. For all other organizations, enter the total of lines 30 through 32. All filers must enter a zero or a dollar amount on this line.

Line 34. Total liabilities and net assets/fund balances. Enter the total of line 26 and line 33. This amount must equal the amount on line 16. All filers must enter a zero or a dollar amount on this line.

Part XI: Financial Statements and Reporting

Line 1. Accounting method. Indicate the method of accounting used in preparing this return. See General Instruction D. Provide an explanation in Schedule O (1) if the organization changed its method of accounting from a prior year, or (2) of the organization's accounting method if the organization checked the "other" accounting method box.

Line 2. Financial statements and independent accountant. Answer "Yes" or "No" to indicate in line 2a or line 2b whether the organization's **financial statements** for the reporting period were **compiled**, **reviewed** or **audited** by an independent accountant. An accountant is independent if he or she meets the standards of independence set forth by the American Institute of Certified Public Accountants (AICPA), the Public Company Accounting Oversight Board (PCAOB), or another similar body that oversees or sets standards for the accounting or auditing professions.

Answer "No" if the organization's financial statements were compiled, reviewed, or audited as part of a consolidated financial statement only. The organization may explain in Schedule O that its financial statements were compiled, reviewed, or audited on a consolidated basis.

If "Yes" to either line 2a or line 2b, answer "Yes" or "No" in line 2c to indicate whether the organization has a committee that is responsible under its governing documents or through delegation by its governing body for (i) overseeing the compilation, review or audit of the financial statements, and (ii) the selection of an independent accountant that compiled, reviewed or audited the statements. Answer "Yes" only if both (i) and (ii) apply. Describe in Schedule O if this process has changed from the prior year.

Line 3a. Single Audit Act and OMB Circular A-133. Answer "Yes" if during the year the organization was required under the Single Audit Act of 1984, as amended in 1996, and OMB Circular A-133 to undergo an audit or audits because of its receipt of federal contract awards. The Single Audit Act requires States, local governments, and nonprofit organizations that expend \$500,000 or more of federal awards in a year to obtain an annual audit in accordance with the Act.

Line 3b. Required audits. If "Yes" to line 3a, indicate whether the organization has undergone the required audit or audits. If the answer to line 3b is "No," explain in Schedule O why the

organization has not undergone any required audits and describe any steps taken to undergo such audits.

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